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FISCAL IMPACT STATEMENT

LS 7202 | **NOTE PREPARED:** Jan 11, 2004
BILL NUMBER: SB 483 | **BILL AMENDED:**

SUBJECT: Tax Incentives for Filming in Indiana.

FIRST AUTHOR: Sen. Drozda | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill authorizes the use of state- and university-owned property as locations for making motion pictures free of charge. It provides that transactions involving tangible personal property are exempt from the state Sales Tax if the person acquiring the property acquires it for the person's direct use in the direct production of a motion picture in Indiana.

The bill provides that costs associated with the purchase of machinery, equipment, or special purpose buildings used to make motion pictures are qualified investments for purposes of the Capital Investment Tax Credit and the Hoosier Business Investment Tax Credit.

The bill provides a state tax credit for expenditures that are made in Indiana and directly related to the production and postproduction of a motion picture.

It also authorizes the Department of Workforce Development to fund job training in the film production industry from the State Workforce Development Fund.

Effective Date: July 1, 2004; January 1, 2005.

Explanation of State Expenditures: *Motion Picture Production Credit:* This bill would increase the administrative burden of the Indiana Film Commission insofar as the Commission would be required to certify the eligibility of motion picture production companies' expenditures that are eligible for the Motion Picture Production Credit. The impact of this provision on the Commission will be contingent upon the number of certification requests received by the Commission. It is presumed that the Commission could absorb the additional administrative burden using existing staff and resources. The Department of State

Revenue would also incur an expense associated with developing forms and procedures related to the Credit.

Hoosier Investment Tax Credit: The expansion of the Hoosier Investment Tax Credit to include qualified expenditures related to motion pictures could have minimal administrative impact on the Department of Commerce, the Department of State Revenue, and the State Budget Agency.

Department of Workforce Development: The bill authorizes the Department of Workforce Development (DWD) to fund job training in the film production industry from the State Workforce Development Fund. The DWD uses the Workforce Development Fund to provide a readjustment program for workers who have been terminated as a result of plant closings and layoffs, and who are unlikely to return to previous occupations or industries. During the FY 2004-FY 2005 biennium, the Fund received an annual General Fund appropriation of about $2.5 M.

Department of Administration: The bill requires the Department of Administration to adopt policies and procedures for making state-owned property available free of charge as locations for making motion pictures. The Department could absorb any costs associated with this provision.

<u>Explanation of State Revenues:</u> *Sales Tax Exemption:* The bill would exempt transactions directly involving motion picture equipment from the state's Sales Tax if the equipment is directly used in the direct production or post production of a film, video, television series, commercial, music video, or corporate production in Indiana. Based on adjusted industry data, it is estimated that the provision could reduce Sales Tax revenue by $320,000 in FY 2005 and by $920,000 in FY 2006. Since the exemption becomes effective on January 1, 2005, the impact in FY 2005 is limited to the collections that would have been received in the last half of FY 2005.

Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Motion Picture Production Tax Credit: The bill establishes the Motion Picture Production Tax Credit. The credit is equal to 30% of the qualified expenses incurred in a taxable year while producing feature length films, video, television series, commercials, music videos, or corporate production that would be eligible for the credit. To receive the credit, taxpayers must receive certification from the Indiana Film Commission that the expenses qualify for the credit. The Commission must certify the taxpayer's expenditures as eligible for the credit if the Commission determines that the expenditures were both made in Indiana and directly related to the production of a motion picture. Based on adjusted industry data, it is estimated that the bill could potentially reduce Individual and Corporate Income Tax revenue by $1 M to $2.5 M beginning in FY 2006. This range should be considered the upper limit of the credit's impact.

Since the tax credit begins in tax year 2005, the fiscal impact would begin in FY 2006. The credit may be taken against a taxpayer's Adjusted Gross Income (AGI) Tax, Insurance Premium Tax, or Financial Institutions Tax liability. Revenue from these taxes is deposited in the state General Fund. However, 86% of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund. The tax credit is not refundable, but taxpayers may carry the credit forward.

Capital Investment Tax Credit: The bill extends the nonrefundable Capital Investment Tax Credit to costs associated with the purchases of machinery, equipment, or special purpose buildings used to make motion pictures. The credit is limited to qualified capital investment that is part of a project in Shelby County with a total cost of at least $75 M. The credit is equal to 14% of the qualified investment. The extension of this credit is not expected to have an immediate impact on state revenue.

Under current law, capital investment that qualifies for the credit include: (1) the purchase of new manufacturing or production equipment; (2) the purchase of new computers and related equipment; (3) costs associated with the modernization of existing manufacturing facilities; (4) on-site infrastructure improvements; (5) the construction of new manufacturing facilities; (6) costs associated with retooling existing machinery and equipment; and (7) costs associated with the construction of special purpose buildings and foundations for use in the computer, software, biological sciences, or telecommunications industry. These investments, and the qualified motion picture investments included in the bill, must be certified by the Indiana Department of Commerce as being eligible for the credit. Unused credits may be carried forward by a taxpayer for up to three years.

Since the changes to the tax credit are effective beginning in tax year 2005, the fiscal impact would begin in FY 2006. The credit may be taken against a taxpayer's Adjusted Gross Income (AGI) Tax, Insurance Premium Tax, or Financial Institutions Tax liability. Revenue from these taxes is deposited in the state General Fund. However, 86% of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Hoosier Business Investment Tax Credit: The bill extends the Hoosier Business Investment Tax Credit to include qualified expenses used to make motion pictures during CY 2005. The credit will only be available for CY 2005, however, unused credits may be carried over for up to nine years. This credit could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount.

The EDGE Board is authorized to award a taxpayer (an individual, corporation, partnership, or other entity with a tax liability) a nonrefundable tax credit for expenditures on qualified motion picture costs that the Board determines will foster job creation and higher wages in Indiana. The investment tax credit is equal to 30% of the taxpayer's qualified investment. The credit amount can be used in the taxable year in which the investment is made and the nine taxable years that follow. The credit amount that the taxpayer may claim in the taxable year in which the investment is made is equal to the lesser of: (1) 30% of the qualified investment or (2) the taxpayer's state tax liability growth. The state tax liability growth is the difference between the taxpayer's state tax liability in a taxable year minus the greater of: (1) the taxpayer's state tax liability in the most recent prior taxable year in which part of a credit was claimed or (2) the taxpayer's tax liability in the taxable year immediately preceding the taxable year in which the investment was made. The taxpayer may carry forward any remaining credit amount for the next nine taxable years. In each of these taxable years, the credit amount claimed may not exceed the difference between the taxpayer's tax liability in that taxable year and the taxable year in which the qualified investment was made. The tax credit is limited to the amount of qualified investment that is directly related to expanding the workforce in Indiana; and the tax credit may not be awarded in relation to jobs that a taxpayer is relocating from one Indiana site to another.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Workforce Development; State colleges and universities; Department of Administration; Department of Commerce; State Budget Agency.

Local Agencies Affected:

Information Sources: State Budget Agency; Economic Research Associates, *Economic Impact Analysis of Indiana's Film and Video Production Industry*, March 2003; Internal Revenue Service.

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